



MINUTES

Committee	CIPFA/LASAAC LOCAL AUTHORITY SORP BOARD	
Date	15 April 2008	
Time	11:00am	
Venue	Barcelo Carlton Hotel, Edinburgh	
Members	Nick Bennett (Chair)	<i>Scott Moncrieff</i>
	David Aldous	<i>Audit Commission</i>
	Lynn Brown	<i>Glasgow City Council;</i>
	John Buchanan	<i>Local Government Audit – NI</i>
	Peter Davies	<i>Monmouthshire CC</i>
	Tim Day	<i>Independent Consultant</i>
	Robert Dowey	<i>Newry and Mourne DC</i>
	Russell Frith	<i>Audit Scotland</i>
	David Jones	<i>Wales Audit office</i>
	Grant Macrae	<i>KPMG</i>
	Ian Robbie	<i>Henderson, Loggie</i>
Observers	Hazel Black	<i>Scottish Government</i>
	Graham Fletcher	<i>CLG</i>
	Alan O'Connor	<i>ASB</i>
	Ian Skinner	<i>Welsh Assembly Government</i>
	David Watkins	<i>HM Treasury</i>
In attendance	Paul Mason (Acting Secretary)	<i>CIPFA</i>
	Ian Carruthers	<i>CIPFA</i>
	Don Peebles	<i>CIPFA</i>
	Julian Smith	<i>CIPFA</i>

1 APOLOGIES

Apologies were received from Angela Brown, Paul Dransfield, Nick Gibbins, Lynn Hine and Derek Yule.

2 MINUTES

The minutes of the meeting held on 4 March 2008 were approved.

3 MATTERS ARISING

- 3.1 Following the March meeting, there had been significant discussion in Scotland regarding the 'authorised for issue' section of the 2008 SORP. Revised wording had now been incorporated into the SORP, and would be considered by CAPE on Wednesday 16 April. Ian Robbie commented that the statement in the minutes that the legislation in Scotland might not be compatible with the Proper Officer re-signing

the accounts was factually incorrect as the regulations did not require the accounts to be signed when submitted by 30 June. Ian also registered his view that in the light of the additional research undertaken on the legislation relating to the production of local authority accounts in Scotland, it should not be necessary for the 2008 SORP relating to FRS 21 issues to be less informative for Scotland than for other UK jurisdictions. Disappointment was expressed by others that the content of the section applying to Scotland was so light. It was explained that, given the discussions that had taken place, an approach of including the minimum requirements in the SORP was inevitable if the deadlines for CAPE and PFMB were to be met. Further discussions would take place involving Audit Scotland, LASAAC and Scottish Directors of Finance to enable more detailed guidance to be provided in future.

- 3.2 Julian Smith gave an update on the development of the CIPFA/LASAAC web site. Photographs of members had been taken prior to the meeting and would be included on the web site. The site would request contact was made through the Secretariat. Agendas would be published approximately one week before the meetings, but papers and minutes would only be made available after the minutes had been approved at the following meeting. A link to the latest SORP had been included, as had links to other useful sites - at present these comprised FRAB, CAPE and FRC, although further links would be added as they were suggested. The constitution was now available on the site, and the LASAAC logo had been incorporated. A single page containing news items and press releases was available. The web site would go live in the next few days.

4 GOVERNANCE ARRANGEMENTS

- 4.1 The consultation paper had set out the reasons for CIPFA/LASAAC's preliminary conclusion that it should recommend a move to a FRAB linked governance framework. Responses generally favoured this approach. Some specific issues had been raised in the ICAS response; these mainly concerned the detailed working arrangements. The Chair informed the board that if CIPFA/LASAAC confirmed its original conclusion, the next step would be for him to write to CLG and the devolved administrations to propose the change. FRAB had agreed the proposals at a high level including in particular the proposed membership changes, but the FRAB and CIPFA/LASAAC secretariats would need to work up proposals and a memorandum of understanding to set out the more detailed working arrangements
- 4.2 The next meeting of CIPFA/LASAAC would consider departmental responses along with a draft of the proposed memorandum of understanding and the specific changes to the FRAB's terms of reference before making its final decision. It was noted that the existing public consultation arrangements would need to be retained.
- 4.3 Members raised a number of questions about the process. With regard to the level of detail that would accompany the request to CLG / devolved administrations, it was explained that the annex to the consultation had included most of the detail departments would require. This would be revised to clarify some areas that the consultation exercise had shown could be misunderstood, and the updated version would accompany the letter.
- 4.4 The status of the Code was raised, and it was explained that this would have a similar status to the existing SORP. The Code would be a stand-alone document, and would not rely on the i-FReM. The Code would be issued by CIPFA/LASAAC rather than ministers, so would still be subject to statutory override.
- 4.5 Details would be provided to FRAB of where the Code and the i-FReM took different approaches. This was to assist FRAB consider the Code, and would follow FRAB's existing method of receiving sector-specific reports, for example where differences

arise for NHS and Foundation Trusts at present. Both the Code and the i-FReM had the starting point of following IFRS. Highlighting variations from the i-FReM would therefore highlight where different interpretations of IFRS were required for the local government situation. The ASB took a similar approach when assessing SORPs, requesting variations from GAAP to be identified. Comparing the Code with the i-FReM would also assist in ensuring consistency across the public sector. CIPFA/LASAAC would still retain responsibility for preparing the Code. FRAB would need to undertake a full review of the first version of the new Code. However in subsequent years, only new departures from the i-FReM would need to be reviewed.

- 4.6 One response from John Layton suggested an alternative approach. This involved a new pan-public sector body endorsing SORP equivalents for local government, HE/FE sector, RSL and charities. The view was expressed that whilst there may be merit in the suggestion, it would almost certainly be impossible to get the necessary agreements in time to meet the required timetable. It was recognised that internationally, there was a gap in the standards for public benefit entities such as charities. The IASB covered the private sector, and IPSASB covered the public sector, but public benefit entities such as charities were not currently covered. This was not something that CIPFA/LASAAC could address. Concern was expressed that the existing arrangements were enshrined in legislation, and any new body would require amendments to legislation. The view was also expressed that there were already enough standards-setting bodies, and creating a further body would be unhelpful. Note was also taken of the popularity of the "FRAB option" for future governance amongst respondents, who appreciated the certainty this offered. It was agreed that the suggestion was not appropriate for CIPFA/LASAAC to recommend.
- 4.7 There was a discussion around the status of International Public Sector Accounting Standards, an issue raised by ICAS. FRAB had used IPSAS as a benchmark when developing the i-FReM, and they provided public sector specific standards in areas not covered by IFRS (for example non-exchange revenue and the current service concession arrangements consultation paper). IPSAS were being developed to bring them up to date with recent IFRS developments; one of the problems was that they were presently not up to date. It was suggested that the FRAB and CIPFA/LASAAC secretariats could helpfully work together to develop a joint understanding of any new standards (IPSAS and IFRS). This co-operation between the two secretariats would help ensure that the i-FReM and the Code developed in compatible directions, and could be incorporated into the memorandum of understanding. It was also relevant for the Board's next meeting to include discussion of how members of both FRAB and this Board could in future be involved in revisions to Standards.
- 4.8 CIPFA/LASAAC agreed to recommend to CLG and the three devolved administrations that the IFRS-based Code of Practice on Local Authority Accounting should move to a FRAB-linked governance framework, subject to satisfactory arrangements being put in place. Copies of the correspondence should also be sent to FRAB members working in the three devolved administrations. It was also agreed that the Secretariat would take on board the comments expressed by the Board when developing the memorandum of understanding on detailed operational arrangements.

5 FIRST PRINCIPLES REVIEW

- 5.1 The review was a consultation on the future format of the local authority statement of accounts, and would be published in parallel with another consultation ("Towards Improved Reporting") on the wider reporting issues for local authorities. The review took a back to basics approach and aimed to generate wide debate. The consultation would commence in May and be complete by the start of the summer holidays. CIPFA/LASAAC would then consider the responses to the consultation in

October, and these would inform the development of the IFRS based Code of Practice. Discussions centred on Appendix B to the report, the draft Consultation Document. These discussions are recorded below.

- 5.2 For the Introduction, a full listing of the types of local authority across the UK to which the Code applies should be added, including Joint Boards, National Park Authorities, Police Authorities, Fire and Rescue Authorities, etc. An Executive Summary should be added at the start of the consultation document to help guide readers.

Section 2 (users of the accounts)

- 5.3 It was agreed that reference to Non Domestic Ratepayers needed to be included in the section, alongside reference to Council Tax payers, and a greater emphasis placed on the role of members.

Section 3 (regulatory statements and notes to the accounts)

- 5.4 A general point to address was how to meet the information needs of all users of authorities' accounts – the secretariat was asked to check whether some aspects, such as Summary Financial Statements, would be covered in the "Towards Improved Reporting" consultation, to minimise duplication of questions for respondents to answer. One issue raised was how and where information removed from the statement of accounts would be provided. It was agreed that for pension funds, questions of proper practice and audit scrutiny coverage would need to be resolved before the changes could be implemented. Q 11 would be amended so that option B also requested responses on where information should be presented if not in the statement of accounts.
- 5.5 It was agreed that the wording of the section needed to be amended to clarify the position for joint boards, charities, etc.
- 5.6 Q 7 needs to be amended to clarify that there is only one option (include fully in I&E) available for Scottish authorities. Other jurisdictional aspects for Scotland and other parts of the UK needed to be shown against each note.
- 5.7 Q 3 needs to be amended to clarify that the HRA surplus or deficit would be shown in the Statement of Changes in Equity. This section should also address the issue of consistency of the Accounts and Audit Regulations, and whether this would be an opportunity for the regulations to be reviewed by CLG and the devolved administrations.
- 5.8 Q 10 - Peter Davies indicated that in his experience the charities and trust disclosures resulted in significant external interest. Russell Frith pointed out that 3.14 would need rewording to correctly reflect the situation with OSCR. Some trusts and charities would not be producing separate financial statements, so would still need to be disclosed in the local authority's accounts. Q 10 would need to be reworded to clarify where the additional or replacement information would be provided. Trustees of charitable bodies and any non-charitable trusts which do not need to produce accounts form an important user group of accounts and other financial information. The Board should aim to address the needs of bodies not reporting to regulators or governments.
- 5.9 The Board agreed to include Officers' Emoluments in the list of notes recommended to be retained in the new Code. Whilst this went further than the statutory requirements in some jurisdictions, it was felt to reflect best practice.

Section 4 (Smaller Councils)

- 5.10 The question was raised as to whether two SORPs would be required, one for parish and community councils and one for all other authorities. It was explained that guidance for parish councils already existed, and could be modified to include a FRSSE-based approach for the larger parish councils relatively easily. The language of the section would be modified to emphasise it applied to both parish and community councils.

Section 5 (Order of Statements)

- 5.11 Members expressed the view that the main concern practitioners had with the existing financial statements was the prominence given to deficits on the Income and Expenditure Account rather than the impact on the general fund and HRA. Whilst the section addresses this, members felt that the section did not make this sufficiently clear. A new paragraph should be added (around 5.5) to emphasise this concern and to explain more clearly how the Statement of Changes in Equity will resolve this, also noting that many stakeholders' primary concern would be with links between the Council Tax and accounts. The new paragraph should also explain that the I&E could cause confusion due to the difference between the surplus / deficit and the taxation position. Consideration should also be given to moving the whole of Section 5 to an earlier point in the consultation document in view of the importance of the issue to practitioners.
- 5.12 In paragraph 5.7, the view was expressed that the current example of the Capital Adjustment Account might not be the best example, and that rewording the section may help to clarify the situation.
- 5.13 At the previous meeting, the current cash flow statement had been raised as an issue by HM Treasury in respect of WGA. Members asked if the proposed treatment of the cash flow statement would resolve this. It was explained that these concerns would be addressed in the detailed design of the statement, but that this would be at a later stage than the consultation. The aim would be for a cash flow statement format that would be driven by balance sheet information.

Section 6 (Consolidated Accounts)

- 5.14 It was clarified that the Prudential Code and Prudential Indicators currently apply to the single entity accounts, not the consolidated accounts. It was possible that the current review of the Prudential Code would generate debate on whether the Indicators would also apply to Group Accounts in future.
- 5.15 Production of consolidated accounts only would be more of an issue in Scotland, where police and fire authorities were consolidated into the local authority accounts. The different legal status of police and fire authorities in England and Wales means they produce separate accounts.

Section 7 (Level of detail)

- 5.16 Members questioned whether the document should emphasise that IFRS had led to an increase in the size of the accounts elsewhere. It was explained that this was dealt with in the introduction (paragraph 1.4).
- 5.17 Members asked about the definition of 'minimum'. It was explained that IFRS specified a minimum amount of information to be included on the face of the financial statements, and also specified further disclosures which could be on the face of the accounts or in the Notes. It was agreed that an annex would be included in the consultation, listing items (for each statement) that could appear on the face of the statement or in the notes.

- 5.18 There was a discussion as to whether only providing the minimum information would lead to more meaningful statements or not. Paragraph 7.3 will be amended to take out the preference for minimum information, and Q 18 will be redrafted to ask about the principles that should be adopted.

Section 8 (Service reporting)

- 5.19 The view was expressed that IFRS 8 might require an internal management approach rather than a BVACOP approach. It was agreed that paragraph 8.9 should be rephrased to refer to the balance between BVACOP and internal management information. A number of members felt that both internal management and BVACOP information should be produced. Q 19 should be rephrased to ask whether the emphasis should be on BVACOP information, management information, or whether authorities should have the choice currently provided in the SORP to optionally produce internal management information, but with a requirement to reconcile this to the mandatory BVACOP information.

Section 9 (Other Issues)

- 5.20 CLG raised the issue of earlier closure dates. It was agreed that this was not an issue for the Code.
- 5.21 A marked-up amended draft consultation document would be circulated to Board members for any further comments before the consultation opened. The Chair thanked Paul Mason for the useful paper presented at the meeting.

6 2009 SORP DEVELOPMENT

- 6.1 Two main approaches to the development of the 2009 SORP were outlined. These were to undertake minimal changes, but publish earlier than in previous years, or to undertake more significant developments (such as PFI accounting arrangements) and publish in the normal timescales.
- 6.2 No additional accounting standards were identified that had to be incorporated. Some of the changes arising from the IASB annual improvement programme may be able to be incorporated even though they will be approved by ASB as part of UK standards after the cut-off date.
- 6.3 No additional legislation was identified. It was reported that Supplementary Business Rates will not come into force before 2010/11, and is therefore not an issue for the 2009 Code. The legislation relating to the Community Infrastructure Levy applies to both England and Wales (but will require activation by Statutory Instrument in each jurisdiction). This may apply for 2009/10, but is not yet certain.
- 6.4 Concern was expressed that the proposed IFRIC 12 approach to PFI accounting would not be acceptable to the ASB, and the SORP could be qualified. Alan O'Connor stated that he had discussed this with colleagues, and that the ASB would seek to accommodate the change if it was approved by CIPFA/LASAAC. The SORP approval process included consideration of future standards, and this might enable the proposed changes to be accepted.
- 6.5 Although Treasury Technical Note 1 has never been part of local government financial reporting requirements, its use as a reference point in practice by authorities and for revenue support purposes would need to be borne in mind if the Note were withdrawn for central government use.
- 6.6 The advantages of adopting the IFRIC 12 approach in the 2009 SORP were that it would avoid dual reporting for WGA purposes, and would spread the transition

- 6.7 Following a general discussion on PFI, and confirmation from the Secretariat that the timetable for developing the detailed PFI arrangements guidance could be met, it was agreed to include the IFRIC 12-based approach to PFI accounting in the Invitation to Comment (ITC). The Secretariat also outlined the work that had been undertaken to date, and indicated that draft sections of the Code and Guidance Notes would be circulated shortly. The intention was to seek agreement on the main principles involved prior to developing transitional arrangements, as these arrangements would be dependent on agreement of the principles. The secretariat would liaise with CLG and the devolved governments and report feedback received to the next Board meeting.
- 6.8 It was decided that the results of the 'first principles' review should not be incorporated into the ITC as the amount of work involved could be detrimental to the development of the IFRS-based Code.
- 6.9 It was agreed that the Audit Commission's recommendations on accounting for the Collection Fund should be considered. This might have implications for other jurisdictions as well.
- 6.10 It was agreed to rename the Unapplied Capital Grants Reserve the Unapplied Capital Grants Account.
- 6.11 It was agreed to consult on removing larger parish / community councils from the scope of the SORP. These councils would need to be included in the consultation process.
- 6.12 It was agreed to defer consideration of the accounting arrangements required to achieve this until the introduction of the IFRS-based Code.
- 6.13 The consolidation of charities, originally raised by the Charity Commission was discussed. The ASB working party had started looking at this area, but had not completed the work. The survey undertaken by CIPFA seemed to indicate few practical issues, but the principles under FRS 2 would need to be considered by the ASB. The view was expressed that it may be better to leave this issue to the IFRS-based Code. However, there was concern this would mean that the issue would drop off the radar. It was agreed that further work was required, but that this was not necessarily required for the ITC, and that the Secretariat would consider the issue further in consultation with ASB.
- 6.14 One further issue was raised, regarding the need to include guidance on reorganisation of local authorities in either the SORP or the Guidance Notes. Authorities would be reorganised on 1 April 2009, with the possibility of further

reorganisations on 1 April 2010 (under IFRS). It was agreed that the Secretariat would give further consideration to this issue.

6.15 The Chair summarised issues for the secretariat to work on for the next meeting: WGA and minimising dual reporting / adjustments; the withdrawal of Technical Note 1; CAPE and the future of FRS5; approach and timings for any regulation changes in Scotland and elsewhere in the UK.

6.16 Pension fund matters which differ across the UK jurisdictions, and reserves matters for Wales, should also be worked on in 2009/10. The 2010 SORP should address specific grants

7 STRUCTURE AND FORMAT OF NEW IFRS-BASED CODE

7.1 The proposed chapter layout of the new Code, along with draft sections of the Code and Guidance Notes were presented.

7.2 Members approved the principle that the Code should include more detail than the i-FReM, and should provide sufficient information to identify the accounting requirements for local authorities. Members also agreed that the Code should make more explicit reference to accounting standards, as shown in the draft sections.

7.3 Some concern was expressed regarding the references in the draft Code extract to the Guidance Notes. Some members felt that such references would require CIPFA/LASAAC to approve the Guidance Notes. This led to a discussion regarding the future relationship between CIPFA/LASAAC and LAAP. A future relationship might for example develop of LAAP becoming a sub-committee of this Board, working in detail on Guidance Notes, for approval by the Board. Ian Carruthers would liaise with the CIPFA Public Finance and Management Board and other relevant colleagues to consider the impact of any such changes on the relationship between CIPFA/LASAAC and LAAP.

8 UPDATE ON IFRIC 12-BASED ACCOUNTING FOR PFI SCHEMES

8.1 This was covered in the discussions on the 2009 SORP developments (see section 6 above).

9 INFRASTRUCTURE ASSETS

9.1 The Policy and Technical Director gave an update on the report on accounting for infrastructure assets. Further information had been received from Newcastle about the cost of developing an asset management based approach, and the resulting savings.

9.2 Confirmation that funding from the Department for Transport was available had been received.

9.3 It was hoped that the final version of the report would be presented to DfT and HM Treasury within the next month and, subject to their approval, published on the CIPFA web site. Full implementation of changes was most likely to be recommended for 2011/12 in order to avoid a further major change in the first year of full IFRS implementation.

10 ANY OTHER BUSINESS

The Board agreed to hold its next meeting on 23 June in Edinburgh, starting at the earlier time of 10am. A main focus for that meeting would be to take the final

decisions on the future Code governance framework and the documents implementing this.